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1 RECORD OF ORAL HEARING
2
3 UNITED STATES PATENT AND TRADEMARK OFFICE
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6 BEFORE THE BOARD OF PATENT APPEALS
7 AND INTERFERENCES
8
9

10 *Ex parte* YISROEL LEFKOWITZ
11
12

13 Appeal 2011-002721
14 Application 09/729,984
15 Technology Center 3600
16
17

18 Oral Hearing Held: March 6, 2012
19
20

21 Before HUBERT C. LORIN, JOSEPH A. FISCHETTI, and BIBHU R.
22 MOHANTY, *Administrative Patent Judges*.
23

24 APPEARANCES:
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26 ON BEHALF OF THE APPELLANT:
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1 The above-entitled matter came on for hearing on Tuesday, March 6,
2 2012, commencing at 10:00 a.m., at the U.S. Patent and Trademark Office,
3 600 Dulany Street, Alexandria, Virginia, before Paula Lowery, Notary
4 Public.

5 P R O C E E D I N G S

6 - - - - -

7 THE USHER: Good morning. Calendar Number 12, Appeal 2011-
8 002721, Mr. Ostrow.

9 JUDGE LORIN: Mr. Ostrow, could you spell your name for the court
10 reporter?

11 MR. OSTROW: O-s-t-r-o-w.

12 JUDGE LORIN: Counsel, this is Claim 2011-002721. We're familiar
13 with the record. When you're ready, you may proceed. You have 20
14 minutes.

15 MR. OSTROW: Thank you. My name is Seth Ostrow. I represent
16 the Appellant, Mr. Lefkowitz, the Applicant.

17 We're here today because there are a number of deficiencies in the
18 record. The case is basically down to an obviousness rejection, and we did
19 our best to try to explain things to the Examiner. Having failed to do so,
20 we're now going to attempt to do that with you.

21 This is an obviousness rejection. There are a number of deficiencies,
22 but let's start with the biggest one. The biggest deficiency is that these three
23 independent claims have key limitations that are not disclosed by any of the
24 references.

1 The obviousness rejection is a combination of a Walker patent, an
2 article from Air France, and then some official notice that the Examiner
3 took.

4 In the rejection and appeal, she did not list the official notice as one of
5 the references; but technically, it's really a combination.

6 But none of those things actually disclose the key limitations of this
7 claim. The key limitations have to do with something called the concession
8 fee.

9 You're familiar with the record, but just let me step back to explain
10 what's going on here. This is an invention in a very specific area. The area
11 has to do with duty-free items.

12 You know, duty-free items are those things you buy at the airport, an
13 international train depot, or the cruise ship or something, where there's no
14 customs tax because you're international travelers.

15 If you have an international travel ticket, you can go to the duty-free
16 store and buy duty-free items and not have to pay the customs, so the price is
17 less.

18 The Applicant, my client, who has been in this duty-free business
19 thought about 13 years ago of a way to solve a problem. The problem is
20 typically the only way to buy these things is at duty-free shops.
21 When you go to the airport duty-free shop, the airport and/or the airline
22 charge something called the concession fee. There is approximately a 30
23 percent surcharge on the price of anything that the airline or airport is
24 charging. That's called the concession fee. It's explained in the application.

1 What my client recognized was if he could come up with a way to get
2 duty-free status on sales but avoid that concession fee, that's a 30 percent
3 that he could use towards something else. The something else has to be an
4 international travel ticket because one cannot buy duty-free items without
5 having the international travel ticket.

6 So he put together a business method -- sorry that's a dirty word, but it
7 is what it is. It's a business method to be implemented over the Internet
8 where he would require people to buy duty-free items and international
9 airline tickets. You must do both for this to work.

10 It's not like you have the option of buying a ticket. They have to buy
11 both, all right? He's made arrangements to have the duty-free item available
12 at the right location, let's say in the airport, so he can get credit for a duty-
13 free item. It's counted as a duty-free item, without having to pay the airport
14 concession fee.

15 The result of that is you could take that concession fee, the 30 percent
16 commission and apply it towards the price of a ticket. So, for example, this
17 is right out of the application -- if you wanted to buy a watch that cost
18 \$1,000 in a regular duty-free shop, if you save the 32 percent or 30 percent
19 concession fee, you can get a ticket to London for nothing or for \$300 less.
20 From the user or consumer's point of view, they get two things: they may
21 not understand the mechanics of what's going on; but from the merchant's
22 point of view, they're able to sell two items. By avoiding the concession fee,
23 they make a more significant profit.

24 JUDGE LORIN: Let me stop you, Counsel, because I don't see
25 anything in this claim anything about avoiding the concession fee. My

1 understanding is the merchant here is selling duty free and is selling the
2 ticket at a discount price based upon the elimination of concession fee.
3 My question to you is: how is it that the concession fee is eliminated?

4 MR. OSTROW: First of all, it is in the claim. I'll come back to that.
5 I'll answer the second thing first.

6 The concession fee is eliminated by not having a store front at the
7 airport, but having simply a warehouse that stores these items. Then
8 arranging for delivery of the duty-free item to the passenger when they do
9 the international travel that they are arranging through the ticket.

10 The claim talks about arranging delivery to the consumer at the
11 location where the travel is taking place. Whatever is required by customs
12 regulations, but that's how you get around the concession fee.

13 The claim does say, sort of in response to your first point -- in Claim 1
14 there are three independent claims, but for the sake of argument to Claim 1 it
15 says sort of the second element. That in conjunction with the offer to sell
16 the specific international travel ticket, you require the customer to select as
17 part of a single transaction at least one duty-free item. I'm sort of
18 paraphrasing.

19 Then it goes on to say that the at least one specific duty-free item to
20 be delivered to the customer at or near an exit point or on board the
21 passenger carrier. That's how you get the duty-free credit without having the
22 storefront.

23 During the travel associated with the specific international travel
24 ticket, the merchant having arranged with the passenger carrier for delivery
25 of the item.

1 Then it says the specific international travel ticket without the
2 merchant being required to pay at least a portion of a concession fee
3 otherwise charged by the carrier to merchants.

4 So the claim specifically says that by making this arrangement the
5 merchant is not required to pay that concession fee.

6 JUDGE LORIN: No, I don't think that's what the claim says.

7 MR. OSTROW: Okay.

8 JUDGE LORIN: The way you're reading it is if you follow the steps,
9 it allows the merchant to avoid the concession fee. That's not how I read the
10 claim.

11 What I read in the claim is an agreement or something has happened
12 prior to this process whereby the concession fee is eliminated for the
13 merchant. The merchant passes that savings back to the consumer by
14 reducing the price on a ticket, okay?

15 MR. OSTROW: Yes.

16 JUDGE LORIN: So the way I read it here is say it is a contract by the
17 merchant in order to not have to pay the concession fee.

18 MR. OSTROW: I don't think so.

19 JUDGE LORIN: That's my question here. It doesn't say anywhere
20 here how it is that this concession fee no longer needs to be paid by the
21 merchant. It simply says a portion of concession fee not paid by the
22 merchant.

23 MR. OSTROW: The language before that where it says "without the
24 merchant being required to pay at least a portion of a concession fee" --

25 JUDGE LORIN: Yes.

1 MR. MILLER: -- the four or five lines of the claim before that
2 explain how that happens.

3 So it says at least one specific duty-free item is to be delivered to the
4 customer at or near an exit point, or on board the passenger carrier.

5 The merchant having arranged with the passenger carrier for delivery of the
6 specific duty-free item to the customer during the travel -- that's how you --

7 JUDGE LORIN: Isn't that the normal process for providing duty free? I
8 mean I've taken flights across the ocean and they provide you duty free on
9 the flight. That's required.

10 In order for you to get duty free, it's required for it to be outside the
11 country to receive the goods. Otherwise, it's not duty free.

12 MR. OSTROW: I think it has to be in conjunction with international
13 travel. You can go to Kennedy Airport or the international airport here and
14 go to the duty-free shops.

15 As long as you have an international ticket, you can buy items. You
16 have to take it with you on the airplane.

17 JUDGE LORIN: Yes.

18 MR. OSTROW: That storefront has to pay the concession fee. That's
19 where the items come from.

20 What we're doing here is we don't have -- there's no store front.
21 We've made these arrangements to have the item delivered without having to
22 have the store front. We've made other arrangements. It's the store front
23 that requires the concession fee.

24 JUDGE FISCHETTI: Who receives the concession fee?

1 MR. OSTROW: It could be the airline and/or the airport. The spec
2 talks about both.

3 JUDGE FISCHETTI: Somewhere along the lines there's been an
4 agreement with the airport to take that fund from someplace else.

5 MR. OSTROW: No, I know there's some confusion to that, but that's
6 not the case. By simply not having that storefront, you don't need to pay the
7 concession fee.

8 JUDGE FISCHETTI: That's my question to you. Where does it say
9 in this claim no store front?

10 MR. OSTROW: It doesn't say it in a negative way. It says it in the
11 affirmative way. Of having these other arrangements being made for the
12 delivery of the item. Then it says without being required to pay the fee.

13 JUDGE FISCHETTI: But I don't see in the claim even if you say
14 what you think, I don't see these steps need to be performed; and, thereby, a
15 concession fee is avoided.

16 JUDGE MOHANTY: Can you point to me what page and line you're
17 referring to?

18 MR. OSTROW: In the claim?

19 JUDGE MOHANTY: Yes.

20 MR. OSTROW: I'm using the amended claims from the appendix to
21 the Appeal Brief. It's the second element of Claim 1. It's sort of a big
22 subparagraph. It starts, "In conjunction with said offer."

23 JUDGE MOHANTY: All right.

24 MR. OSTROW: It's really the bulk of that paragraph we're discussing
25 now.

1 "In conjunction with the said offer to sell said specific international
2 travel ticket at a discounted price, requiring said customer to select for
3 purchase" -- then it's basically the rest of that element that we've been
4 reading and discussing.

5 JUDGE LORIN: It says, "without the merchant being required to pay
6 at least a portion of the concession fee."

7 MR. OSTROW: Yes.

8 JUDGE LORIN: Okay, so if a merchant doesn't pay the concession
9 fee, that means that phrase.

10 MR. OSTROW: The merchant is not required to pay the concession
11 fee meets the phrase, yes.

12 JUDGE LORIN: So a merchant who doesn't meet the paid concession
13 fee would be such a merchant.

14 MR. OSTROW: That would meet that element, yes. Well, it's not
15 required to pay. Yes, I agree, they're not required to pay. That's fine.

16 JUDGE LORIN: You have a merchant that doesn't pay a concession
17 fee that sells a ticket at a reduced rate.

18 MR. OSTROW: Yes.

19 JUDGE LORIN: Along with a duty-free item.

20 MR. OSTROW: Yes.

21 JUDGE LORIN: Does that not meet this claim?

22 MR. OSTROW: It seems like it probably would.

23 JUDGE LORIN: Okay.

24 MR. OSTROW: But there's nothing in the record that teaches that.

1 JUDGE LORIN: That's a different story. For argument's sake, I
2 agree that the rejection is a bit on the hindsight. But in terms of construing
3 this claim the way I read it, all that's required is a merchant who doesn't pay
4 a concession fee provides a consumer with a reduced rate on a flight ticket
5 and a duty-free item. That's all that's necessary.

6 MR. OSTROW: Yes. The only part -- I would tweak it a little. It
7 talks about what's required, and the specification discusses when that
8 concession fee is required in these duty-free shops in the airport.

9 Yes, if the merchant has an arrangement where they're not required to
10 pay the fee. They've worked it out, and I know I'm going a little beyond
11 what Your Honor is saying, but I'm saying the previous portion of the claim
12 is the set-up for how that's done.

13 JUDGE LORIN: I recognize that the record has to move in that
14 direction. This is not something I expected you to have prepared for. But
15 I've looked at the record, and it leads me to my next question -- the 101
16 question.

17 MR. OSTROW: Please.

18 JUDGE LORIN: You knew that was coming.

19 MR. OSTROW: I had a sense.

20 JUDGE LORIN: So you tell me why this complies with 101.

21 MR. OSTROW: There's been some clarifications in the law since this
22 appeal has been pending. The Supreme Court federal circuit decisions -- we
23 haven't had a chance to fix the claims if they're required.

24 First of all, the use a computer network for this transaction. It's in the
25 first element. The offer has to be over a computer network.

1 The merchant's decision -- the selection has to be over a computer
2 network. It has to be in a single transaction. Then the merchant will
3 acknowledge that over the network. The merchant has to accept payment
4 over the network.

5 So, you know, there's a computer network and machine or series of
6 machines that are being used in the methodology. One view is that it
7 satisfies that test, okay?

8 It's not just an incidental. It's pretty much every step of this except
9 maybe the delivery of the physical goods has to be done using a computer
10 network.

11 Secondly, I would argue this is a fairly specific methodology. It's not
12 just an abstract concept. There's a sequence of steps which have to occur in
13 a specific order in order for this to happen.

14 It's not just a claim on a generic idea. You say, well, if I get a
15 discount -- the merchant will arrange a discount on duty-free items, and we'll
16 take that and give it to the consumers. There are specific things that have to
17 happen in order to implement that.

18 JUDGE LORIN: Let me stop you there. Why isn't that? That's
19 exactly what I was driving at earlier. You negotiate a way to reduce your
20 cost, you pass that savings to the consumer. Why isn't this an application of
21 that abstract concept?

22 MR. OSTROW: I think I was reading the claim differently. We've
23 discussed that, but the way in which this claim has the merchant not required
24 to pay the concession fee is through a specific delivery methodology. It's
25 not through negotiation.

1 When you had asked me that hypothetical, is the following thing
2 covered, I don't think you said negotiate. I don't think the negotiation would
3 be covered.

4 This can only be done if it's not required, and it's not required because
5 the way the duty-free item is delivered is in a very specific way it's
6 delivered. It gets around the concession fee requirement.

7 So I don't know that this claim covers simply a merchant negotiating
8 with an airline to reduce its fee. The intent was to cover avoiding the
9 requirement for the concession fee that way.

10 JUDGE FISCHETTI: Counsel, I've been on planes internationally
11 where the flight attendants actually come around with a cart with duty-free
12 items and sell them at that point.

13 At that point there's no concession fee, right?

14 MR. OSTROW: There is a concession fee. There is -- the airline
15 charges the duty-free merchant concession fee on those transactions.

16 JUDGE FISCHETTI: Okay.

17 MR. OSTROW: Again, from the consumer point of view the
18 consumer might not realize -- it doesn't list it. You know, it's a \$1,000
19 watch, it doesn't say it's really a \$700 watch, but \$300 goes to the airline.
20 But it's a factor in the price.

21 JUDGE MOHANTY: Let me ask a question. Let me step back and
22 look at this 103. If you take out the international air travel, an international
23 flight and the duty item, it seems like you're just offering a discount.

24 What's the difference in this and going to Hotels.com to book your
25 flight, book your hotel, and we'll lower your price?

1 What's the difference between buying a Big Mac and a fry supersize,
2 and I'll reduce the price? If you step back from that, I'm not really sure how
3 -- to me the concept is really a reduction in price.

4 I just want to see what you think in this claim works around it?

5 MR. OSTROW: What works in this claim is what we've been
6 discussing. Basically, that a methodology has been devised to avoid paying
7 a concession fee.

8 It's not simply just that the merchant got discounted item, or just
9 decided to lower its price. The claim gets into the mechanics of how that's
10 done.

11 That's done by arranging for delivery of the item in a specific way, the
12 merchant no long has to pay the airport or airlines concession fee.
13 Therefore, has this extra money that he specifically calculates into the price
14 of a ticket.

15 It's a specific calculation of that at the end of the claim.

16 So you can't just plug in other items. This would not work with any
17 other two items. You can't just take shoes and watches. There'd be no
18 reason why -- there's no fee I'm saving by delivering shoes in some special
19 way, or french fries with my hamburger.

20 We're not trying to cover merely discounting by selling two items for
21 the price of one and a half, or something like that. What we're trying to
22 cover is a specific work around that only works in this one industry in the
23 way the claim attempted to set forth, which I understand maybe we're
24 quibbling over whether it did it enough.

25 As I wrote it, I tried to put enough detail together.

1 JUDGE MOHANTY: The term you're using is concession fee. The
2 others have concession fees. But suppose I sell you something in bulk? You
3 might not call it a concession fee. You might call it a bulk discount.

4 MR. OSTROW: Right.

5 JUDGE MOHANTY: It's the same concept as if you buy two I'll
6 reduce your price. Here it seems you want to hang your head on what I call
7 the concession fee instead of a bulk discount.

8 MR. OSTROW: I understand, and that was sort of the issue Examiner
9 Alvarez had.

10 What I'm suggesting is the reason why this is different from all those
11 other scenarios is we're not merely buying the duty-free items at some form
12 of discount.

13 We're selling them at the same price they always are. We found a
14 way to avoid a specific line item in the charge by delivering the item in a
15 special way, if it's purchased specifically with an international travel ticket.
16 So the kinds of things you're mentioning, the kinds of things the Examiner
17 mentioned, those are just generic discounts. We're not in to cover just
18 generically discounted things.

19 We're trying to cover a specific methodology that only is applicable in
20 this one industry.

21 JUDGE LORIN: If we take your construction of the claim, I'm
22 having difficulty understanding how you avoid the concession fee.

23 If we take this example here where a cart goes down the aisle. We've
24 seen that, they're selling duty-free.

25 MR. OSTROW: Right.

1 JUDGE LORIN: You're saying there's a concession fee.

2 MR. OSTROW: Yes.

3 JUDGE LORIN: That's the power of the airline to do that. How are
4 you able to follow this method as you construe it and have the airline not
5 require the concession fee?

6 Isn't that totally under the airline's control? Whether the charge is a
7 concession fee or not? How can you prevent the airline from --

8 MR. OSTROW: Because the items are not sold on the airplane,
9 which triggers the concession fee to the merchant.

10 The merchant is paying the fee for the right to bring that cart to the
11 airplane and sell to this captive audience of consumers, right?

12 Or in the case of the airport, to have that shop, right?

13 That's not happening here. What's happening here is the consumer is
14 buying this on line. There's a computer network involved.

15 The user is selecting these items online, paying for them online, and
16 then the delivery -- the delivery is what's occurring at the entrance or exit
17 point, or on the plane. There's no selection or purchase, and there's no cart
18 with goods.

19 I previously purchased this on line, but to get duty-free status and
20 retain the duty-free status of the item, they're delivered in the specific way
21 the claim says. That's how you get around the concession fee.

22 JUDGE LORIN: And the airplane will allow someone to get on the
23 plane and sell it that was bought on line not paying a concession fee to the
24 airline?

25 MR. OSTROW: They don't sell it on the airplane.

1 JUDGE LORIN: Just delivery.

2 MR. OSTROW: Yes. Well, if it's done at an exit point or entry point,
3 you don't need the airlines' permission. You just have to deliver it there,
4 okay?

5 If you want to do it on board, you might need to make an arrangement
6 with the airline to just deliver. If I'm sitting in my seat, they come and say
7 you bought this from so-and-so merchant. That's their only involvement.

8 In exchange for that, the specification says if that's the way you
9 wanted to go, there's an offsetting consideration to the airline for selling
10 their tickets. You put a passenger in a seat that might not otherwise have
11 gotten that ticket because they got a discounted ticket to London or
12 whatever.

13 So the merchant put the passenger in the seat in exchange for which
14 the airline is merely handing them something that they already purchased.
15 There's no cart.

16 There may also be a cart, but that's not what this invention is about.
17 This invention is that I'm just handed something I already bought on
18 line.

19 JUDGE LORIN: I understand what you're talking about.

20 JUDGE FISCHETTI: That didn't jump out of the claim, I'll tell you
21 that.

22 MR. OSTROW: Okay, we tried. I amended these claims
23 dramatically. I pushed this concept into the claim as much as I could.

24 I'm relying on the section I indicated as well as the last element, as
25 well as at least some understanding from the specification about when

1 concession fees are required, which is explained throughout the
2 specification.

3 So at least some reliance on this concept of requiring -- you know,
4 that's being required to pay the concession fee, which is otherwise charged.
5 That coupled with the specific delivery methodology is how we were trying
6 to claim this.

7 JUDGE FISCHETTI: The timing factor that you enumerated very
8 clearly here didn't come out.

9 MR. OSTROW: Which timing?

10 JUDGE FISCHETTI: You previously prepurchase something on line,
11 and it's basically a delivery aspect of what's happening here that's key.

12 MR. OSTROW: Yes. Well, the method is you offer the consumer.
13 The consumer has to select and acquire. The merchant acknowledges it, and
14 then the merchant takes it on line over the computer network. I'm sort of
15 skipping element by element.

16 The merchant accepts payment over the computer network. The
17 merchant delivers the travel ticket to the customer -- all that has to occur
18 before the travel. He doesn't have his ticket yet, right? That's how you get
19 the ticket.

20 JUDGE FISCHETTI: Right.

21 MR. OSTROW: The whole purpose --

22 JUDGE LORIN: I'm understanding a little more clearly. That's why
23 a hearing can sometimes be very beneficial.

1 Now I understand a little better what's going on here. I see on page 8
2 of your specification the federal regulations that are involved in duty free
3 and selling duty free.

4 Now the way I understand this invention is you found a way, in light
5 of these regulations, to sell these items and still remain within the
6 regulations and finding a way to get around selling it in a store.

7 MR. OSTROW: Yes.

8 JUDGE LORIN: I understand better.

9 MR. OSTROW: That's basically it.

10 JUDGE LORIN: I understand better. I hope this hearing has been
11 beneficial to you.

12 Any more comments?

13 MR. OSTROW: As far as the 101 issue goes, I understand
14 procedurally we can't sit here and rewrite the claims. But if we can get past
15 the 103 problem and set the spec down, I'm sure I can work with Examiner
16 Alvarez to amend the claim in whatever way might be required on the
17 technical side.

18 We have no problem limiting this use to computers and the Internet.
19 That was the intent. In fact, it's the only way we're aware it works anyway.

20 So to the extent that might still be required, we're happy to do that. I
21 understand while this has been pending, the Supreme Court has spoken.
22 Thank you.

23 JUDGE LORIN: Thank you.

24 (Whereupon, the proceedings at 10:26 a.m. were concluded.)